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TOPIC - MARKET SEGMENTATION

THE DEVELOPMENT OF TARGET MARKETING

AND MARKET SEGMENTATION

AN OVERVIEW

The concept of target marketing is a refinement of the basic philosophy of marketing. **It is an attempt by companies to relate the characteristics or attributes of the goods and services they provide more closely to customer requirements.**

When **mass production techniques** were first introduced, out of necessity **they imposed a large degree of uniformity** upon consumers. However, such techniques also brought an improvement in most people's standards of living.

Mass production reduced unit costs and resulted in cheaper goods.

What factors led to the development of Market Segmentation?

- **As consumers became more affluent**, their aspirations also increased. They were no longer satisfied with 'a car' or 'a sewing machine', but wanted a particular type of product with *specific characteristics* that suited their requirements more accurately.
- **Advances in production technology** made a degree of product differentiation possible with little reduction in the economics of scale of the former mass production techniques.
- The situation today is that, while certain firms attempt to service an entire market for a particular product or service, this tends to be the exception rather than the rule.

In such cases, either the market in question is very specialised and relatively small, or the firm enjoys some form of monopoly power.

- Many organisations operate in very large markets. Such firms recognise that the overall market is so large that it may not be possible to serve the entire population of that market effectively.

The overall market may be geographically dispersed and the firm may lack the resources to service it properly.

- **Very often the overall market for a particular product or service is too heterogeneous**, in terms of the purchasing requirements of individuals or organisations making up the market, for any one firm to service adequately.
- **By targeting on to specific groups of consumers or 'market segments'**, instead of attempting to service the demand requirements of an entire population for a

particular product category, the firm is able to develop more effective marketing programmes

Stages In Target Marketing

The process of target marketing needs to be carried out systematically and scientifically to be effective.

According to Kotler (1991), the process of target marketing has three distinct stages

The Market Segmentation Stage

Here the overall market is divided into distinct groups of buyers who are likely to respond favourably to different product/service offerings and marketing mixes.

The firm determines the most appropriate basis for segmentation, identifies the important characteristics of each market segment, and develops criteria for evaluating their commercial attractiveness and viability.

The Market Targeting Stage

This is not to be confused with the overall process of target marketing.

Market targeting is the process whereby one or more of the market segments previously identified are evaluated and selected.

The Product Positioning Stage

This shows that even within a given market segment, competitors' products are likely to be positioned in a particular 'niche' or position.

Product positioning is the process whereby the product or service and all the other marketing mix elements are designed to fit a given place within a particular segment.

Such a position may be more implied than real. It is how the consumer perceives the product's position relative to competitors' products that is important.

Market Segmentation - A Definition

Firms are now employing a strategy of segmentation, viewing the market as being made up of small segments, each more homogenous than the total in important characteristics.

Market segmentation is the process of partitioning the heterogeneous market into segments. The various segments identified should be homogeneous within themselves, but heterogeneous without, that is different from other segments.

The concept of segmentation was first proposed by **Smith (1956)** who identified it as an important strategy, which can be adopted by marketers.

This process involves a move away from **the shotgun approach to Marketing**, towards **a rifle approach**, which is more selective in the choice of segments, which an organisation chooses to pursue.

Types of Segmentation

The general criteria for effective market segmentation are:

Physical Attribute Segmentation

Behavioural Attribute Segmentation

Physical Attribute Segmentation focuses on the more tangible aspects of segmentation, while the latter looks into the more abstract aspect of dividing markets.

Physical Attribute Segmentation may be subdivided into the following; Demographic Segmentation and Geographical Segmentation.

Behavioural Attribute Segmentation involves, Benefit Segmentation and Psychological Segmentation.

Bases for segmenting consumer markets

There is no 'golden rule' when it comes to segmenting consumer markets. The marketing firm may have to investigate using many different segmentation variables in

order to gain an insight into the structure of the overall market.

Very often it may be necessary to use a combination of variables in order to define a precise market segment. The main discriminating variables used to segment consumer markets can include the following:

- ***Demographic variables*** Demographic factors are perhaps one of the more straightforward bases for segmenting consumer markets; they are also one of the most meaningful. The main demographic variables are given below.

Age. Although age is one of the more straightforward segmentation variables, it is also one of the most important.

Gender Many product purchases are also related to gender. Some of these products are obvious, e.g. dresses, lingerie, cosmetics and 'women's' magazines such as *Woman's Weekly*.

Family size This is usually categorised as 1-2, 3-4, 5+. Obviously, the size of family will have some effect on the types of product purchased and this is especially so of pack size, e.g. family size pack.

- ***Social class/income*** The current convention in the UK is to use a mixture of social class and income. Classifications are based on the occupation of the head of the household.

- Higher managerial, administrative or professional
- Intermediate managerial, administrative or professional
- Supervisory, clerical, junior administrative or professional
- Skilled manual workers
- Semi-skilled and unskilled manual workers

State pensioners, widows, casual and lowest grade earners

- ***Geodemographic techniques*** Partly because of some limitations of either geographic or social class segmentation, considerable effort and research has

focused on finding newer and more powerful bases of segmenting and targeting markets.

Aided by the power of the modern computer, a number of approaches have been developed which are based on a combination of where the customer lives and a variety of socio-demographic variables, e.g. occupation, home ownership, size of family, etc.

- ***Education***
- ***Benefit segmentation*** Benefit segmentation uses *casual* rather than *descriptive* variables to group consumers. Different people buy the same or similar products for different reasons. For example, some people buy a car purely as a means of transport, others because the shape and design of the car give them pleasure, others as a status symbol or as an extension of their personality, and others for patriotic reasons; e.g. they might always buy British.

Haley (1968) first introduced this approach, based on the idea that consumers could be grouped according to **the principal benefit sought**.

- **Segmentation by usage** Consumption rates for many consumer products are not evenly distributed across all households. Hence, meaningful segments could be defined in terms of usage of the product itself. According to **Frain (1981)** research does indeed indicate that a 'skewed' purchasing pattern often does apply – even to products intended for a mass market: 50 percent to 80 percent of the purchases of some commonly-bought products are made by 20 percent to 30 percent of all UK housewives.
- **Loyalty status** A market can also be segmented according to the degree of consumers' brand loyalty. According to **Kotler (1991)** consumers into four groups based on their loyalty status.
- **These are the hard core loyals, the soft core loyals, the shifting loyals and the Swithcers.**

- ***Geographical and cultural segmentation***

Criteria for effective segmentation

The marketing firm not only has to identify potential market segments, but also to establish whether segments are commercially viable and cost-effective.

The following factors are useful in evaluating the suitability of a potential market segment:

- ***Measurability*** The marketing firm should be able to identify and quantify the potential of each segment.
- ***Accessibility*** To have any commercial meaning, the marketing firm must be able to reach each segment with a specific marketing programme. It must, therefore, be possible to communicate with individuals or firms making up the segment in a cost-effective way.

- ***Viability/substantiality*** To be viable, each segment must be large enough or commercially lucrative enough to warrant treating as a separate sub-market.

Benefits of market segmentation

Market segmentation should result in benefits for both the marketing firm and its customers. If no such benefits accrue to either party, then the segmentation exercise is a meaningless waste of time. The following is an example of possible benefits:

- **Effective segmentation should result in greater sales and profitability.**
- **Segmentation should allow the producer to design products and market appeals that are more 'finely tuned' to the needs of the market.**
- **Segmentation should result in greater consumer satisfaction.**
- **Segmentation allows the marketing firm to focus on those sub-markets with the greatest potential.**

- **It allows for greater product differentiation and variety as firms seek further market opportunities by developing new segments.**
- **It may result in a better competitive position for existing brands.**

Market targeting

Market segmentation is only the first, step in the overall process of target marketing.

The firm also has to evaluate each segment and decide how many of the segments to serve. To establish viability, we need not only an indication of the size of the segment, but also estimates of likely turnover and profit, and an indication of where the segment is going; i.e. forecasts of future trends in demand are also necessary.

For a proper evaluation, each market segment must be expressed in terms of its cost and revenue implications.

Buzby and Heitger (1976) recommended the use of

individual segmentation budgets. These can then be aggregated to form the firm's overall marketing budget.

Market coverage strategies

Once market segments have been identified and evaluated, the marketing firm has to decide on its level of market involvement.

It may determine that no meaningful segments exist and decide to cover the whole market with one basic product or service offering.

It may establish a number of meaningful segments and decide to service all or a number of them with a differential product and/or marketing mix.

It may identify a number of segments, but decide to service only one or very few of them. Hence the firm can adopt one of three market coverage strategies:

- ***Undifferentiated marketing*** With this strategy, the firm focuses on what is common to all potential consumers rather than attempting to exploit differences. One product and one marketing mix are offered to all consumers without any form of differentiation.
- ***Differentiated marketing*** With this strategy the firm decides to operate in a number of market segments. The firm offers a slightly 'different' product and related marketing mix to each segment. Washing powder, toothpaste and motor car markets are good examples of this approach used by marketing firms.
- ***Concentrated marketing*** Here the firm decides to attempt to cater for one, or possibly a few, market segments. It concentrates on a limited group of customers and aims to service them more effectively and efficiently than competitors.

Product Positioning

After segments have been identified and a segmentation strategy developed, a firm needs to develop and communicate a product positioning strategy.

Product positioning is the act of designing the company's product and marketing mix to fit a given place in the consumer's mind.

Using marketing research, the firm should establish the position of competitors' products in any given market segment and then decide whether to compete on a 'me-too' basis (to offer a product very close to a competitor's offering) or to attempt to fill a gap in the market.

Product positioning is the final stage in the overall process of target marketing. Once the firm has established its product positioning strategy, it is then in a position to go on to plan the details of its marketing plan.

PSYCHOGRAPHICS – ITS DEVELOPMENT

Psychographic research gained momentum in the sixties mainly in response to marketer's needs to obtain market information that went beyond traditional demographic data.

Critics argue that one of the major problems of demographic market segmentation is the lack of richness in describing consumers for market segmentation and strategy development.

Critics state that demographic segmentation lacks colour, texture and dimensionality when describing consumers, and it often needs to be supplemented by something that fills in the bare statistical picture. Consequently, many firms looked for better ways to define markets.

One of the newest, most exciting and promising approaches to selecting target markets, is lifestyle and psychographic segmentation. Although these two concepts are used

interchangeably, they are not equivalent but complementary.

The term **“lifestyle”** is not new, but its application to marketing has been rather recent. **Alfred Adler (1945)** coined the phrase “style of life” to refer to the goal a person shapes for himself and the ways he uses to reach it. Lifestyle can be viewed as a unique pattern of living which influences and is reflected by one’s consumption behaviour.

Defining Psychographics

When it comes to define Psychographics, this is not an easy matter. It has to do with mental (“Psycho”) profiles (“Graphics”), or the profiling of consumers. Psychological processes and properties. Thus it pertains to the consumer’s cognitive style. One of the most precise statements about Psychographics is the following:

A DEFINITION

“It is the systematic use of relevant activity, interest and opinion constructs to quantitatively explore and explain the communicating, purchasing and consuming behaviours of persons for brands, products and clusters of products.” (Demby, 1974).

According to Demby (1974) Psychographics may be viewed as the method of defining lifestyle in measurable terms and is defined as:

“The use of Psychological, sociological and anthropological factors, such as benefits desired (from the behaviour being studied) self concept and lifestyle, (or serving style), to determine how the market is segmented by the propensity of groups within the market and their reason to make a particular decision about a product, person, ideology, or otherwise hold an attitude or use a medium.” (Demby, 1974).

This definition looks at Psychographics as incorporating social and behavioural sciences in the field of marketing research. Psychographics involves the use of quantitative techniques which can enhance information provided by demographic data. In this sense it has adapted techniques typical of personality inventories.

Nowadays Psychographic research is being used more frequently in market segmentation studies.

It is used to identify Target Markets, to better understand Consumer Behaviour, in planning successful marketing strategies and to minimise the risks involved in introducing new products and in developing new projects.

Psychographic Research, A Critique

Although using Psychographic research in segmentation studies can be very beneficial, critics cite two key shortcomings which the marketer must be aware of; **Data Collection and Analysis together with cost factors.**

Unlike Demographics, Psychographics is primary research and is a more complex approach to obtaining the marketing information sought by management.

Data collection can be problematic because of the large number of questions asked via the survey instrument.

Compounding this, is the analysis of a voluminous amount of data, requiring the use of multivariate statistical techniques in seeking key marketing relationships.

Cost wise a well-designed Psychographic study is on the upper rung of the pricing ladder compared to other types of segmentation research.

But despite this criticism “Psychographic” research still remains one of the most effective tools in market segmentation.

Basis for Segmenting Industrial Markets